



DCMA Pricing Update

***Maj Gen Malishenko
DCMA Director***

June 6, 2000

Discussion Topics

- Agency Update
- CASB Review Panel
- Paid Cost Rule
- Price-based Acquisition Study
- DSB Task Force
 - Profit Policy
 - Financing Policy
 - Restructuring
- Performance Measures (Closeout & UCAs)
- Parametric Estimating

▯ Vision

- DCMA People Teaming to Provide World Class Contract Management Services

▯ Mission

- ▯ Provide Customer Focused Contract Management Services, Throughout the Acquisition Life Cycle- Around the Clock, Around the World.

▯ Goals

- ▯ Deliver Great Customer Service
- ▯ Lead the Way to Efficient and Effective Business Processes
- ▯ Enable DCMA People to Excel

People

- People are the foundation of our success and our most valuable asset

Service

- One focus: Customer focus

Excellence

- Doing things right the first time

Integrity

- Operating with the highest standards of ethical conduct

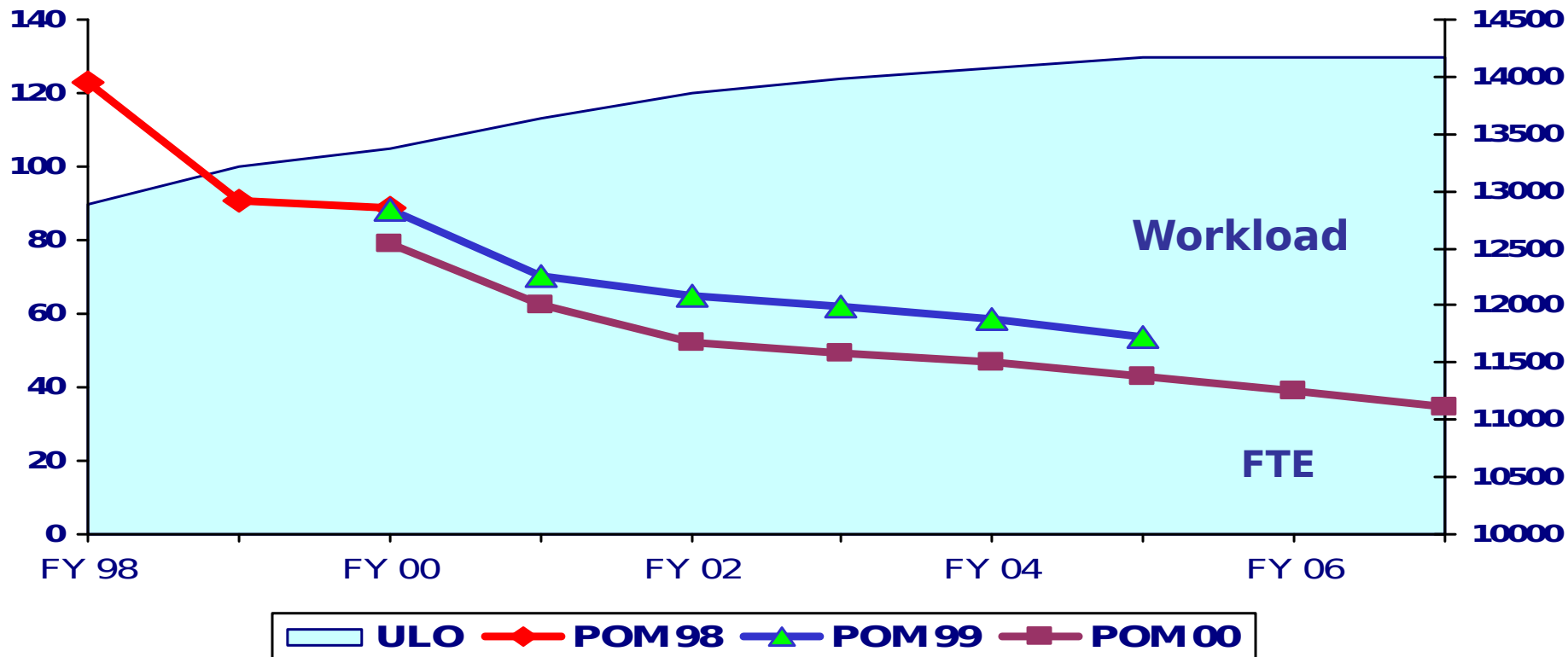
Innovation

- Seeking improvements that add value to our customers

Customer Workload

POM	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>
FTE	12,544	12,014	11,683	11,589	11,501	11,373	11,250	11,107

ULO (\$Bs)



Service Sets--What We Do for Our Customers

Integrated Management System Framework

One Book Process Definition

PLAS Reporting by Process

Activity Based Management

**Command-wide
Performance Contracts**

Accountability for results

Right Item

Right Time

Right Price

DCMA Service Sets

Pre-Contractual Advice Services

Major Program Services

Risk Assessment Services

Product Support Services

Delivery Services

Pricing/Modification Services

Bus & Fin Systems Services

Flight Ops Services

Payment & Fin Mgmt Services

Contract Closeout Services

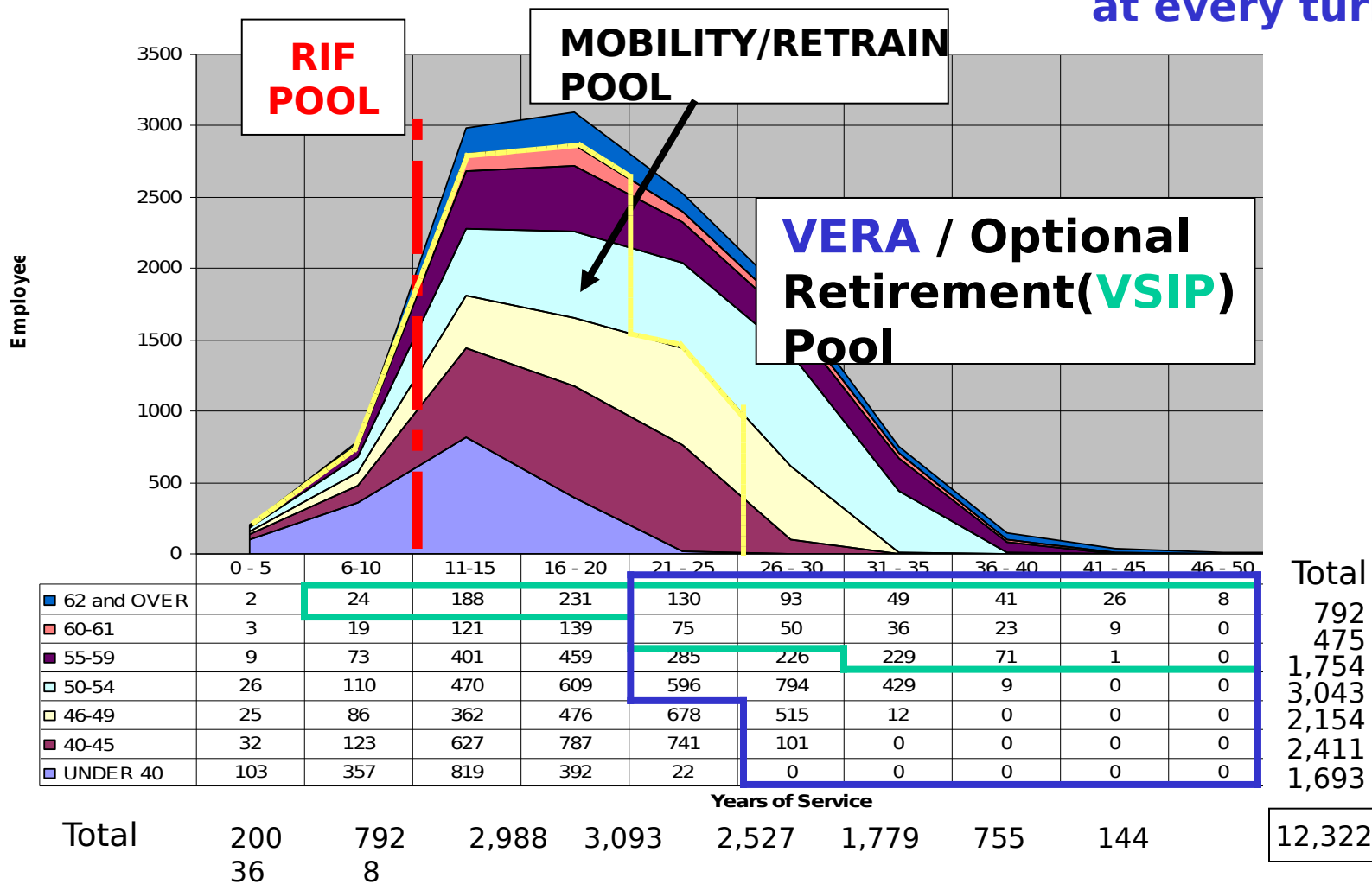
Services Support

Organizational Support

Workforce Demographics

DCMA Acquisition Downsizing Realities Workforce

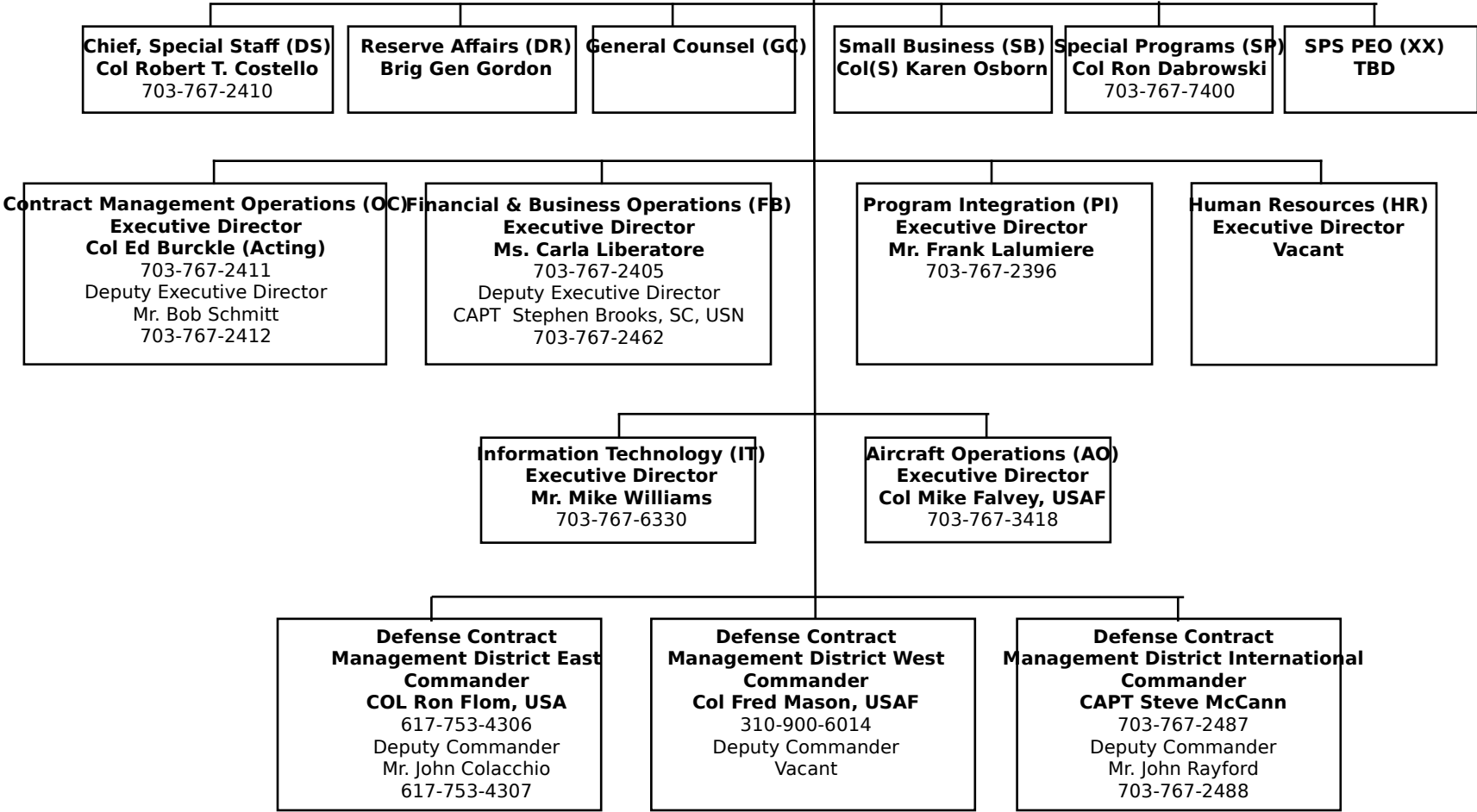
Funding impacts
at every turn



Agency Organization

Defense Contract Management Agency
 8725 John J. Kingman Rd., Suite 4539
 Ft. Belvoir, VA 22060-6221
 Commercial: 703-767-2390
 DSN: 427-2390
 April 4, 2000

DIRECTOR
Maj Gen Timothy P. Malishenko, USAF
703-767-2403
 DEPUTY DIRECTOR
 Mr. Thomas E. Brunk
 703-767-5568



Panel's Recommendations

- Keep current \$500,000 contract threshold ***Done!***
- Apply CAS after receipt of \$7.5M contract ***Done!***
- Raise full coverage threshold to \$50M ***Done!***
- Exempt FFP -- no certified cost/pricing data ***Done!***
- Waiver authority to contracting agencies ***Done!***
- Review of Standards ***To begin soon?***
- Remove CASB from OFPP ***Still under consideration***

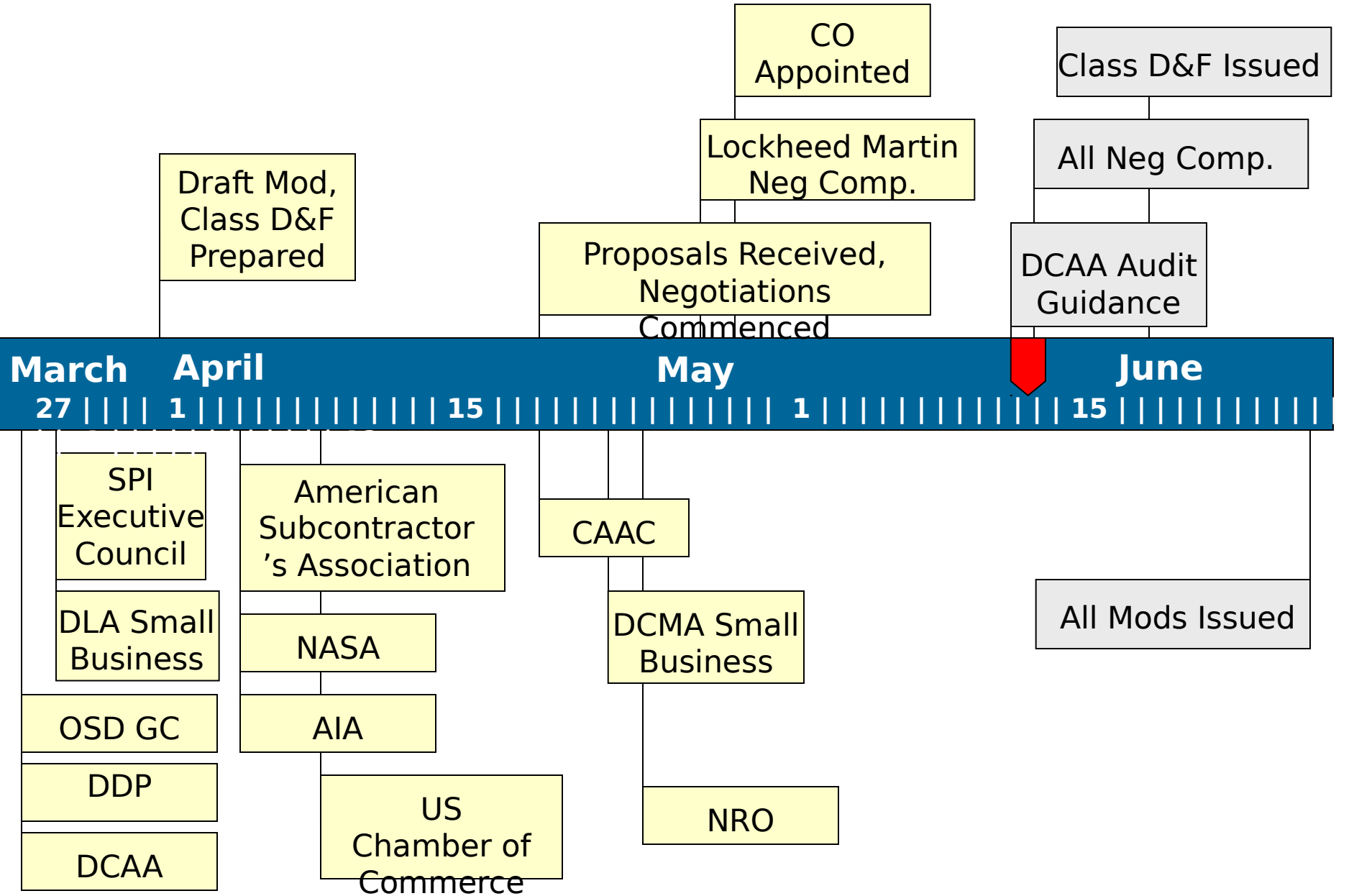
***Panel's Final Report issued to Congress April 1999;
CASB Interim Rule implementing FY 2000 Defense
Authorization Act effective April 2000***

Price-based Acquisition Study

Government/Commercial Buying Practices

- Key Principles
 - ▢ Trade-offs - Cost, Schedule, Performance trade space
 - ▢ Competition - particularly on development programs
 - ▢ Risk Reduction - before development (incremental)
- ▢ Establishing Fair & Reasonable Prices
- ▢ “Agreeing on Contracts” - Performance Based & Incentives
- ▢ Shifting Progress Payments to Performance Milestones

Paid Cost Rule



DSB Task Force--Profit Policy

Facilities Capital Employed
On average, 21% in FY97.
Up to 35-45% of profit
objective in labor-intensive
production contracts

RECORD OF WEIGHTED GUIDELINES APPLICATION						REPORT CONTROL SYMBOL DD-A&T(O)1751		
1. REPORT NO.		2. BASIC PROCUREMENT INSTRUMENT IDENTIFICATION NO.			3. SPIN		4. DATE OF ACTION	
a. PURCHASING OFFICE		b. FY	c. TYPE PROC INST CODE		d. PRSN	a. YEAR		b. MONTH
5. CONTRACTING OFFICE CODE DCMC-OA		ITEM		COST CATEGORY		OBJ ECTIVE		
6. NAME OF CONTRACTOR Any company		13. MATERIAL				90,000.00		
7. DUNS NUMBER		14. SUBCONTRACTS						
8. FEDERAL SUPPLY CODE		15. DIRECT LABOR				224,000.00		
9. DOD CLAIMANT PROGRAM		16. INDIRECT EXPENSES				364,000.00		
10. CONTRACT TYPE CODE		17. OTHER DIRECT CHARGES				22,000.00		
11. TYPE EFFORT		18. SUBTOTAL COSTS (13 thru 17)				700,000.00		
12. USE CODE		19. GENERAL AND ADMINISTRATIVE				42,000.00		
		20. TOTAL COSTS (18 + 19)				742,000.00		
WEIGHTED GUIDELINES PROFIT FACTORS								
ITEM	CONTRACTOR RISK FACTORS	ASSIGNED WEIGHTING	ASSIGNED VALUE	BASE (Item 18)	PROFIT OBJ ECTIVE			
21.	TECHNICAL	20%	4.00					
22.	MANAGEMENT	30%	4.00					
23.	COST CONTROL	50%	4.00					
24.	PERFORMANCE RISK (COMPOSITE)		4.00	700,000.00	28,000.00			
25.	CONTRACT TYPE RISK		3.00	700,000.00	21,000.00			
26.	WORKING CAPITAL	COSTS FINANCED	LENGTH FACTOR	INTEREST RATE				
		148,400.00	.65	8 %	7,717.00			
CONTRACTOR FACILITIES CAPITAL EMPLOYED			ASSIGNED VALUE	AMOUNT EMPLOYED				
27.	LAND			47320				
28.	BUILDINGS		10.00	118300	11,830.00			
29.	EQUIPMENT		35.00	70980	24,843.00			
30.	TOTAL PROFIT OBJ ECTIVE				93,390.00			
NEGOTIATED SUMMARY								
		PROPOSED	OBJ ECTIVE	NEGOTIATED				
31.	TOTAL COSTS	820,000.00	742,000.00	681,570.00				
32.	FACILITIES CAPITAL COST OF MONEY (DD Form 1861)	19,500.00	18,928.00	18,856.00				
33.	PROFIT	101,000.00	93,390.00	94,580.00				
34.	TOTAL PRICE (Line 31 + 32 + 33)	940,500.00	854,318.00	795,006.00				
35.	MARKUP RATE (Line 32 + 33 divided by 31)	15 %	15 %	17 %				
CONTRACTING OFFICER APPROVAL								
36. TYPED/PRINTED NAME OF CONTRACTING OFFICER (Last, First, Middle Initial) Whoever		37. SIGNATURE OF CONTRACTING OFFICER		38. TELEPHONE NO.		39. DATE SUBMITTED (YYYYMMDD)		
OPTIONAL USE								
96.	97.	98.	99.					

- Encourages investment in defense-related capital assets
- Penalizes companies that consolidate and diversify
- Limited incentive for improved performance and cost cutting measures

Given current defense policy, does it make good business sense to invest in defense-related capital assets?

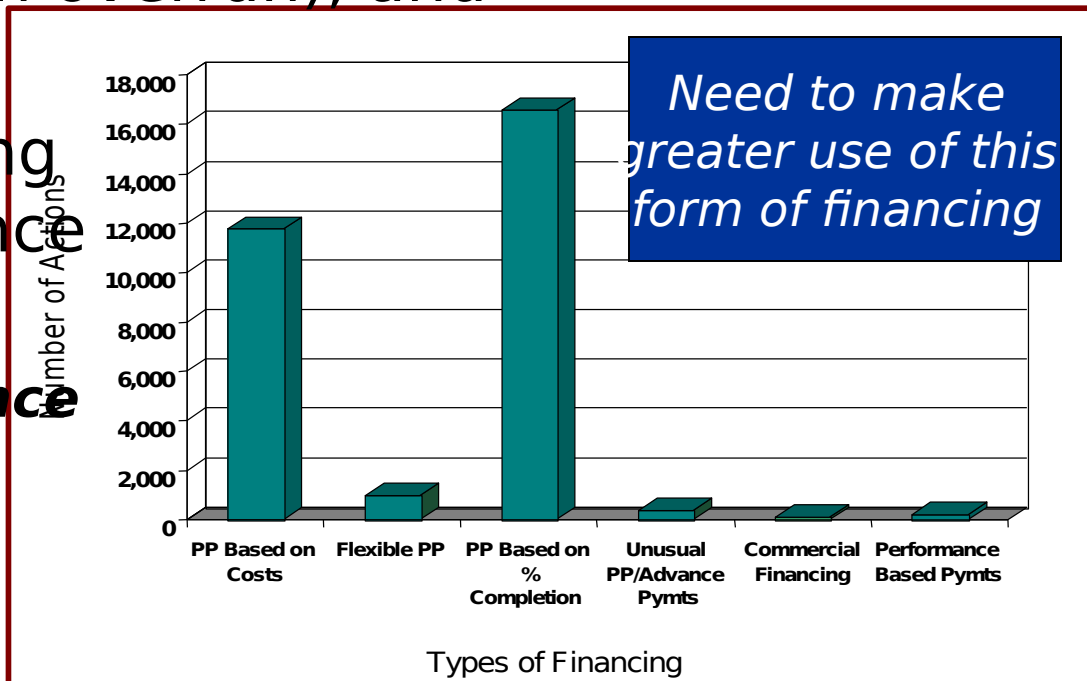
Policy

Performance Based Payments

Benefits to suppliers include...

- up to 90% of contract price (progress payments limited to 75% of paid costs for large businesses),
- better cash flow whenever work is ahead of schedule (even in an overrun), and
- do not require an approved accounting system or compliance with MMAS

FY98 Use of Performance Based Payments
Used in less than 1% of actions, accounted for 10% of dollars



DSB Task Force--Financing Policy

Performance Based Payments Issues

- Adequate Definition of Performance Events
- Payment Schedule linked to Expenditure Profile (Advance Payments)
- Schedule Risk - if high, may delay cash flow
- DFAS Payment
 - Progress payments easy, routine
 - Performance based, complex, harder

Consolidation Issues

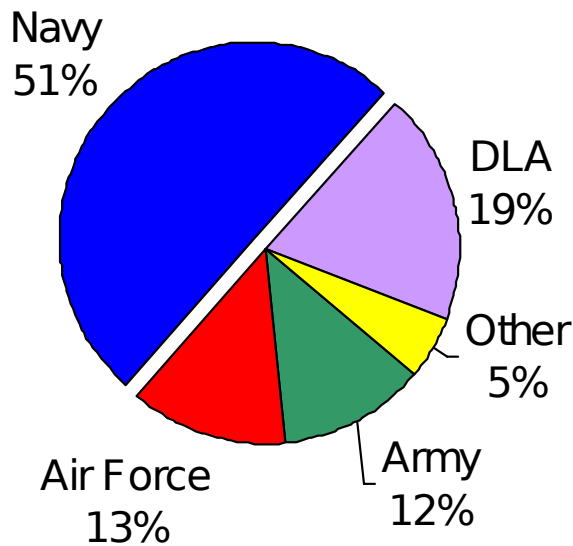
Program Risk from Consolidation at One Particular Facility

- Employee Relocation (50% expected to relocate, only 29% did)
- Lost Key Skills, (IT, Program Management)
- Cost/Schedule Impact
- Need DAE Program Impact Tolerance

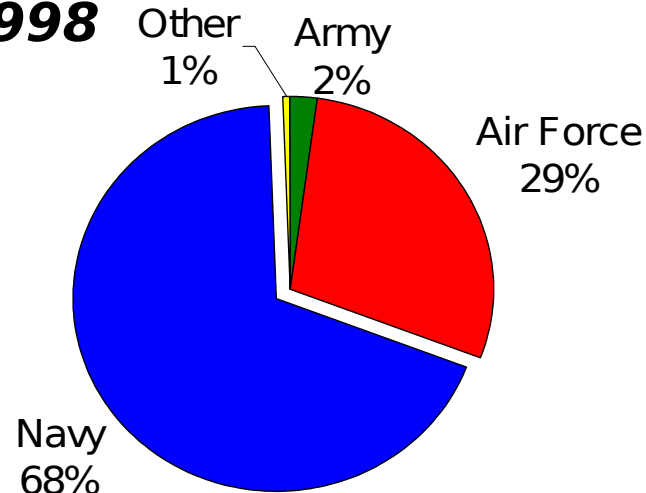
Short Term Pain, Long Term Gain

Performance Measures

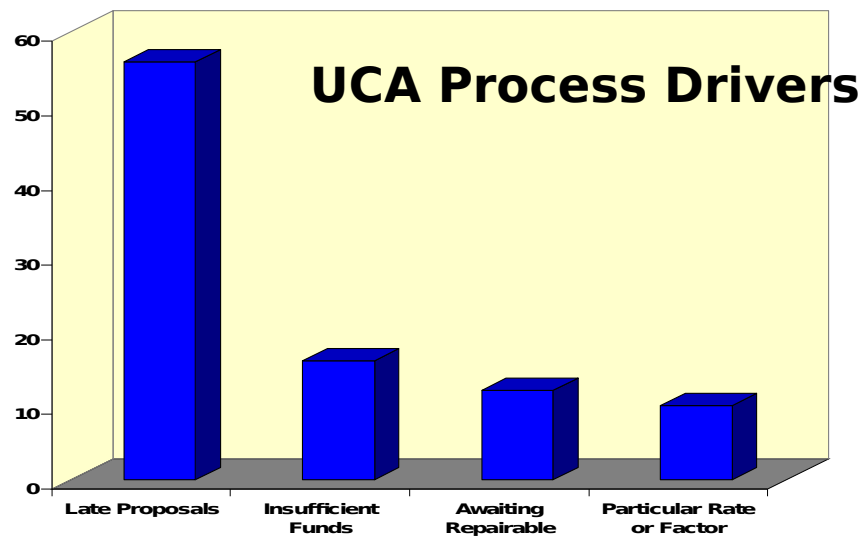
Overage Contract Count July 1998



Overage UCA Count July 1998



This insight, and further “drill-downs” allowed us to work issues with the buying office for both parties’ benefit



Parametric Cost

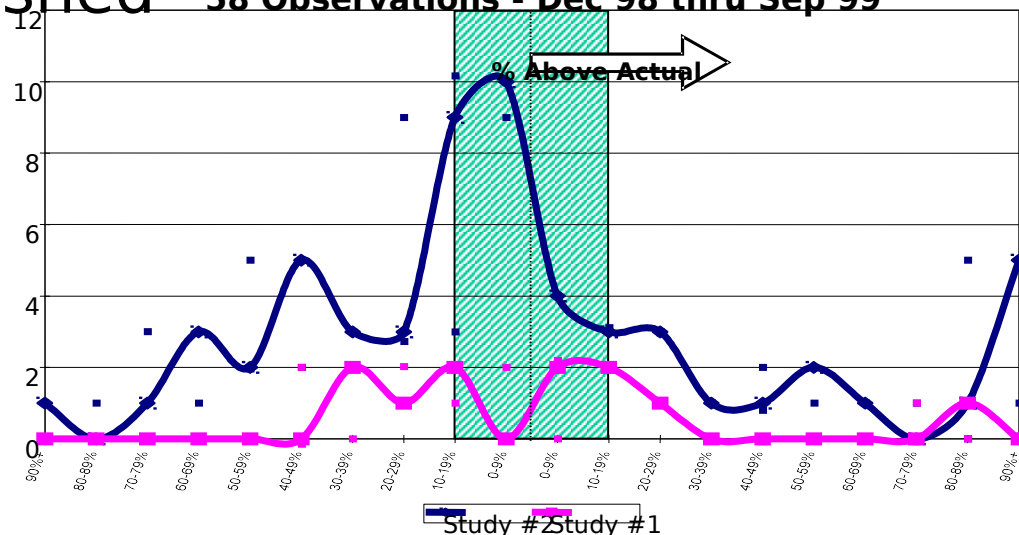
Estimating

Where Parametrics can help us...

- Improve UCA definitization timeliness
- ▢ Facilitate price analysis for Price-Based Acquisition & Commercial Item Contracts
- ▢ Reduce reliance on supplier-furnished cost data

Our accuracy greatly improved during our second test

Percent Variance from Actuals
58 Observations - Dec 98 thru Sep 99



Capability will be developed incrementally